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Director of
Central
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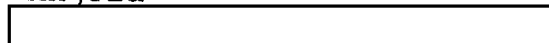
National Intelligence Daily (Cable)

CONTENTS

ARGENTINA-CHILE: Holding Action	1
USSR-ROMANIA: Pact Relations.	2
NICARAGUA: Negotiating Process.	4
TAIWAN: Government Reaction	5
YUGOSLAVIA: Collective Leadership	7
BRIEFS	8

China-US

Angola



Thailand-Laos

Algeria-Morocco

Belgium

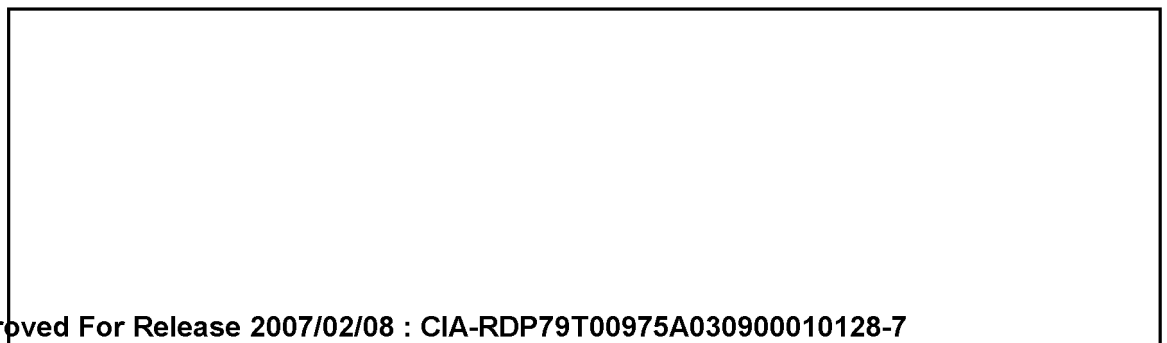
Tunisia

FEATURE ARTICLE.	11
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VIETNAM-CHINA-KAMPUCHEA: Military

LATE ITEM.	15
--------------------	----

OPEC: Oil Prices to Rise



ARGENTINA-CHILE: Holding Action

//The Navies of Argentina and Chile are both in the Beagle Channel area, but international diplomatic pressure appears to be a key factor in Argentina's decision thus far not to initiate military action.//

//The latest information available from Chilean defense sources indicates that the Argentine task force has moved to a position approximately 200 nautical miles east of the Beagle Channel. The Chileans, however, are now tracking only six Argentine units--suggesting that two ships may have broken away and are maintaining radio silence.//

//Meanwhile, the US defense attache in Santiago reports that a Chilean flotilla--consisting of one cruiser, one oiler, and five or six destroyers--is positioned near the Strait of Magellan, with an additional cruiser headed there. Two Chilean submarines are also deployed in the south near the Drake Passage.//

//There are still strong indications that Argentine President Videla, who has been meeting almost constantly with military leaders, is attempting to find a peaceful solution. Some Chilean Government officials are said to believe that the Argentine Government is in a state of paralysis because of major divisions among its top-ranking leaders and that it will not launch an attack.

//International diplomatic efforts to prevent hostilities are intensifying. UN Secretary General Waldheim has called in the Argentine and the Chilean Ambassadors to urge them to achieve a peaceful settlement, and, according to an unconfirmed press report, Brazilian Foreign Minister Silveira has offered to act as mediator. The nine members of the European Community are seriously considering a demarche, and the President of the Permanent Council of the Organization of American States, acting in response to a US request, has offered his assistance.//

USSR-ROMANIA: Pact Relations

An authoritative unsigned commentary in Saturday's edition of the Soviet party daily, *Pravda*, attacked Romania directly for the first time since last month's Warsaw Pact summit surfaced a dispute over East European agreement to additional military expenditures and tighter military coordination within the Pact. The article follows two indirect Soviet attacks on Romania and represents an increase both in bilateral tensions and in the USSR's efforts to get Romania to accept greater Pact integration. The Soviets are now likely to sponsor concerted propaganda attacks on Romanian President Ceausescu by other Warsaw Pact members.

The Soviets had earlier raised the issue in a careful joint party and government statement of 30 November indirectly criticizing Romania and in Soviet President Brezhnev's indirect rebuke of Ceausescu on 5 December. The *Pravda* article--unlike previous Soviet commentary--strongly criticizes Romania for adopting a "particular position" at last month's meeting of the Pact's Political Consultative Committee and then publicizing that position in a way that served the purposes of "Peking's propagandists."

Romania's close ties with China have been a major catalyst in its recent controversy with the USSR, which has been particularly angered by the visit to Romania of Chinese party Chairman Hua Kuo-feng in August and by Ceausescu's willingness to sign a friendship treaty with China's ally Kampuchea in May. Soviet Foreign Minister Gromyko's visit to Bucharest in October failed to ease these strains.

Pravda pointedly repeats Brezhnev's criticism of Ceausescu's "demagogic arguments" after the Pact meeting and, in an obvious rejoinder to the Romanian position, emphasizes that the issue of Warsaw Pact cooperation is "linked" to strengthening the Pact's defenses. The Soviets have tried in the past to push the East Europeans into assuming a larger share of the Pact defense budget, and the *Pravda* commentary suggests that this issue is a major cause of the current dispute between Moscow and Romania.

Soviet officials are not reluctant to acknowledge the current strain in Soviet-Romanian relations, but they are privately denying that the USSR is seeking in-

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creased military expenditures. In separate conversations with a US diplomat last week, two Soviet academicians stated that their country is merely trying to "perfect" Pact readiness and efficiency. The Romanians and other East Europeans may worry that such methods could lead to new layers of command that the Soviets would use if tensions in Europe increased. []

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The two Soviet officials tried at the same time not to appear overly concerned with Romania's recent statements, suggesting that the USSR is not confident it can orchestrate a successful Pact campaign against Romania. The fact that the Soviets waited nearly a month before issuing an authoritative criticism of Ceausescu also reflects their belief that public disagreements between Warsaw Pact states are harmful. []

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NICARAGUA: Negotiating Process

//Although direct talks have recently started between representatives of Nicaraguan President Somoza and the Broad Opposition Front, Somoza's strategy evidently remains to string out the negotiating process in order to gain time and splinter the opposition. He recognizes that the result would be almost absolute polarization, leaving the US and others to choose between the only two remaining significant political forces: Somoza or the Marxist-oriented Sandinista guerrillas.//

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//Somoza's repeated concessions on details challenge his generally timid and inexperienced opponents to follow suit, lest the negotiations founder on their intransigence. The opposition has neither the cohesive strength, however, nor the flexibility of Somoza's power structure, and continued concessions will over time discredit and ultimately shatter the Broad Front.//

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//Somoza has reason to be encouraged that his strategy is working. Each successive stage of the international mediation effort has taken more time than anticipated. Implementation of a general amnesty dragged on for over a week. Revision of the radio and television censorship code--another opposition condition--will also probably not be resolved expeditiously.//

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//Direct talks on the specifics of the national plebiscite and the succeeding transitional government will offer Somoza a fertile opportunity for further delays. As these occur, pressures will increase on member organizations of the Front, particularly those of the political left, to pull out and denounce the mediation. Of 16 groups that originally comprised the Broad Front, three have already resigned and a fourth has all but formalized its departure. Compromises on the remaining fundamental differences--especially the opposition's insistence that Somoza leave the country if he loses the plebiscite--could lead to further defections.//

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//Although there have been reports of clashes between guerrillas and guardsmen in the Costa Rican border area, the Sandinistas have confined themselves to small-scale hit-and-run actions. Vague reports have surfaced that the Sandinistas are acquiring aircraft but, while this is undoubtedly an important Sandinista objective, there is no substantiation of the reports.//

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TAIWAN: Government Reaction

The government on Taiwan has moved quickly to maintain morale and economic stability on the island in the wake of the announcement of the normalization of diplomatic relations between the US and China. [redacted]

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President Chiang Ching-kuo denounced the normalization in a speech on Saturday but signaled his desire to develop a restructured relationship with the US by referring to the continued friendship and mutual interests of the two peoples. Chiang reiterated his standard refusal to negotiate with the government in Peking and pledged to continue current policies on civil rights, economic development, and national defense. A meeting of the ruling Kuomintang's Central Committee scheduled for today will probably hear a similar message. [redacted]

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The government is using the news media to encourage a sense of normalcy and confidence and is emphasizing continued cooperation with the US to maintain normal economic and trade relations. Broadcasts have also featured President Carter's mention of concern for Taiwan's well-being and Dr. Brzezinski's statement that the US will not abandon Taiwan. To head off possible panic, the Minister for Economic Affairs quickly reaffirmed the soundness of the economy, announcing that Taiwan is not changing its trade policy toward the US. [redacted]

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A legislative election scheduled for next Saturday but postponed after the US announcement will probably be rescheduled after the initial shock of normalization wears off. In the meantime, both the Kuomintang and its opposition have ceased campaigning, and many leading opposition candidates are urging unity and public support for the government during the crisis. [redacted]

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Both sides may reassess their tactics and chances for victory. Kuomintang leaders who had been worried that the highly symbolic election would result in unacceptable, if relatively small, losses may now hope that a national unity theme will work to their favor. On the other hand, the opposition may see the new situation as an opportunity to push forward, counting on the government's need for widespread popular support to increase opposition bargaining power. [redacted]

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Anti-US demonstrations were less intense yesterday than on Saturday, and security officials expect the

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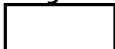
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demonstrations to subside over the next few days. The police acted with restraint during the disturbances on Saturday, if only to avoid diverting the demonstrators' wrath toward the government. A broadcast yesterday warned against excessive conduct in the name of patriotism.

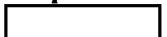
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YUGOSLAVIA: Collective Leadership

Recent public comments by a Yugoslav party leader strongly suggest that the collective system introduced in October in the federal party's ruling Presidium includes new measures to cut down the extensive autonomy of regional power centers. The scheme might lead to another confrontation over the delineation of federal and republic prerogatives. []

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Branko Mikulic, whom President Tito recently selected to chair the Presidium for one year, said that the format of the 24-member Presidium will be implemented in all state and party organizations before the national assembly election in 1981, and he reasserted the Presidium's right to make federal decisions on key matters binding on regional organizations. Until now, regions have in practice been allowed to work out their local programs with minimal interference, and they have usually found ways to get around unpalatable federal directives.

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According to Mikulic, the leadership now plans to establish federal party supervision over local decision-making by regularly sending delegates from Belgrade to regional plenums. These federal delegates would be outsiders--that is, a Serbian might attend a plenum of the Croat party. This ploy, along with efforts to break up personal fiefdoms at all levels, amounts to the most adventurous federal infringement on regional autonomy since the purges of party barons in 1972 and 1973.

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Mikulic argued that collectivity is necessary in order to break up cliques and to reduce the arbitrary power of individual leaders. He asserted that policy errors will be fewer and easier to correct in the collective system, and he insinuated that potential foreign influence--clearly he meant the USSR--upon powerful individuals was another reason for moving toward collective responsibility.

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Because Mikulic introduced the proposals, he will bear the brunt of criticism from regional party leaders. President Tito is undoubtedly behind the effort to assert federal party predominance, but he is unlikely to identify himself with specific proposals until after he can assess the initial reaction to them.

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BRIEFS

China-US

The volume of China's purchases of US goods and its sales to US companies at the Fall Canton Trade Fair reached record levels. Sales to the US--largely textile products--rose to \$60 million, up 35 percent from those at the spring fair and 20 percent above the record of last fall. Stable prices for most Chinese goods and a continued trend toward greater Chinese flexibility on contract terms facilitated the upswing. [REDACTED]

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Chinese purchases of US goods came to about \$80 million, almost three times the level at any earlier fair. Raw polyester, pharmaceuticals, and agricultural chemicals made up the bulk of Chinese purchases. [REDACTED]

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The increase in transactions at the fair nevertheless understates the rise in total US-China trade. US exports to China may top \$800 million this year, more than four times last year's figure. Renewed Chinese purchases of US wheat and corn will account for most of the increase. US imports probably will also show substantial growth, perhaps to \$340 million, 70 percent more than the record set in 1977. Next year, total bilateral trade may top \$1.4 billion, as US shipments of agricultural products rise to more than \$900 million. [REDACTED]

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Angola

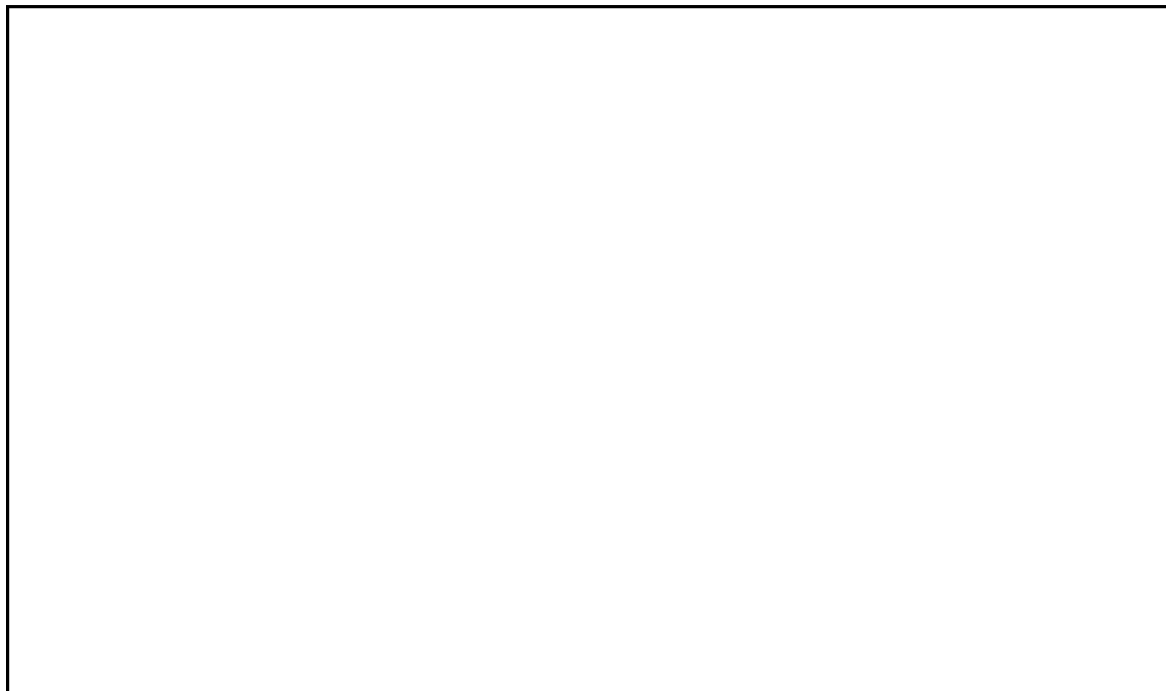
President Neto in a speech yesterday to his ruling party rejected what he claimed are the US conditions for establishing relations with Angola. Neto alleged that Washington's desire to establish relations with Luanda is conditioned on the withdrawal of Cubans from Angola and on his government's reaching a settlement with the insurgent National Union for the Total Independence of Angola. He said the US conditions are unacceptable because they would leave Angola vulnerable to military attacks from South Africa. [REDACTED]

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Thailand-Laos

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Thai Prime Minister Kriangsak has announced the indefinite postponement of his scheduled visit to Laos this week, in an abrupt reversal of his earlier decision to proceed with the trip despite Lao attacks on Thai patrol boats on the Mekong River last week. The Thai Government is in the final stages of approving a new constitution and must then endorse an election law. According to Kriangsak, the press of this business requires that he stay home. [REDACTED]

Algeria-Morocco

Algeria accused Morocco on Saturday of airdropping weapons, ammunition, and explosives off the Algerian coast about 100 miles east of Algiers. The Algerians claim that a Moroccan Air Force C-130 made the airdrop on 10 December. [REDACTED]

We cannot confirm that such an incident took place. For more than two years, however, the Moroccans have been lending political support to Algerian dissidents. It is

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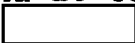
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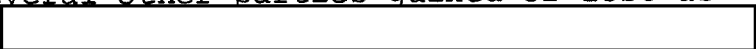
also possible that the Algerians located a cache of arms and found it convenient for domestic reasons to blame Morocco. 

Belgium

The election in Belgium yesterday produced no major shifts in party strength, and the prospects for resolving the country's pressing problems probably have not been brightened by the results. The Social Christian Party gained one seat and remains the largest party in the 212-member lower house of parliament, but two of its leaders--former Prime Minister Tindemans and Defense Minister Vanden Boeynants, head of the interim government--did not fare well in attracting votes in their respective urban areas, Antwerp and Brussels. 


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This may complicate the already difficult problem of choosing a prime minister, most likely a Social Christian, to form a coalition government. The Socialist Party, Belgium's second largest, lost three seats, and only one of the several other parties gained or lost as many as six seats. 

Tunisia

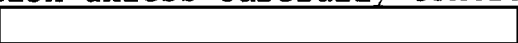
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Several former labor leaders have openly called for the restoration of the former leadership of Tunisia's labor movement, over which the government assumed control in January. The government thus far has not responded publicly, but the challenge probably reduces the chance of a government reconciliation with its domestic opponents. 

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The labor leaders are demanding the release of jailed ex-labor leader Habib Achour, reinstatement of the former executive council of the labor confederation, and dismissal of the progovernment officials who were put in charge of the confederation following Achour's arrest last January. Achour, sentenced to 10 years' hard labor for calling the country's first general strike, is reportedly directing the activities of his supporters from prison. 

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The national labor federation has about 400,000 members and is a potential power base for the political opposition unless carefully controlled by government loyalists. 

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FEATURE ARTICLE

VIETNAM-CHINA-KAMPUCHEA: Military

//The pace of military activity in eastern Kampuchea is increasing, and a major commitment of Vietnamese forces could occur at any time. Given Vietnam's overwhelming military advantages and the constraints on China's ability to deter Vietnam, the prognosis for the regime in Kampuchea is not good.// [REDACTED]

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//Large-scale Vietnamese military preparations and Hanoi's new treaty with Moscow indicate Hanoi has abandoned hope of reaching a modus vivendi with the regime in Phnom Penh. By establishing their own rival Khmer political entity, the "Kampuchean National United Front for National Salvation," earlier this month, the Vietnamese, in effect, have inaugurated a second Cambodian war.// [REDACTED]

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//A military solution seems simple on paper; Vietnamese forces could easily be in Phnom Penh in a matter of days if not hours. But Hanoi is well aware of the political risks and larger strategic considerations that make a "final solution" dangerous and difficult to impose. We believe this recognition will greatly influence Hanoi's decisions.// [REDACTED]

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//Initially, Vietnam will seek to gain the upper hand militarily east of the Mekong. The Vietnamese will attempt to secure an expanded base area for their Khmer resistance force. We do not have a clear idea of insurgent capabilities, but we doubt that Hanoi's Khmer force will be able to operate as more than an auxiliary during this dry season.// [REDACTED]

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//As in last year's dry season campaign, Hanoi's principal objective will be to destroy as much of the Kampuchean Army as possible. The Vietnamese doubtless hope for a general collapse of resistance east of the Mekong and the wholesale defection of Kampuchean units. This would give the struggle the appearance of genuine civil war and allow the Vietnamese to remain in the background.// [REDACTED]

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//Hanoi, of course, cannot count on such optimum results, especially if the Kampucheans continue to rely on

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guerrilla tactics and avoid battles where Hanoi's full military superiority can be brought to bear. Hanoi will then face a difficult choice: a swift drive to Phnom Penh to install a Vietnamese client regime there, or a more patient struggle with limited Vietnamese military action and an expansion of allied Khmer insurgent forces--essentially the strategy Vietnam followed during the first Cambodian war against the Lon Nol regime in the early 1970s.// []

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//Hanoi clearly would prefer a quick end. Service in Kampuchea is highly unpopular, and--more important--a protracted conflict could delay Vietnamese reconstruction plans for years. Hanoi must realize, however, that an all-out drive on Phnom Penh would not necessarily prove conclusive. Hanoi could find itself involved in an indefinite occupation of Kampuchea in support of a puppet government encircled by anti-Vietnamese guerrillas supported by China through Thailand.// []

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//The Vietnamese must also factor in the possibility of rising political and diplomatic costs elsewhere in Southeast Asia of an all-out military drive into Kampuchea. Thailand, alarmed by the prospect of Vietnamese troops on its border, has contingency plans to back Khmer resistance against a pro-Vietnamese government and is probably prepared to cooperate with China. The repercussions of Vietnam's actions probably would ripple beyond Southeast Asia. Western aid would decrease, chances of improving relations with the US would be set back, and Vietnam would be left even more dependent on the USSR.// []

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//Hanoi must also consider China's reaction to an all-out military effort, although we believe the danger of becoming mired in a Kampuchean morass is now acting as a greater constraint on Vietnamese action than the threat of direct Chinese counteraction.// []

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//The Chinese would see a Vietnamese client regime as a sharp setback to their security and to China's credibility as a great power in Southeast Asia. China's geographic separation from Kampuchea and the xenophobic nature of its Khmer clients, however, sharply limit its ability to influence events on the ground. In the past, Peking has seen little recourse but to bank on a weak and eccentric regime to protect its interests in Kampuchea.// []

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//Peking's recognition that a major setback may now be at hand is reflected in the increasingly pessimistic tone of private Chinese comments on Kampuchea's prospects. Peking is now avoiding enthusiastic support for the Pol Pot regime and refraining from any direct threat to Hanoi. Chinese officials, in fact, are authoritatively ruling out sending combat troops to Kampuchea. The Chinese have not attempted serious saber-rattling along the Sino-Vietnamese border nor massive infusions of equipment into Kampuchea.// []

//These negative indicators suggest that the Chinese are now preparing to react to a successful Vietnamese campaign against Kampuchea rather than devising new means to save Pol Pot from military disaster. If a viable, anti-Vietnam resistance develops, Peking clearly would attempt to supply it by air and sea through Thailand. Peking already has made some tentative arrangements with Bangkok for this contingency.// []

//In short, Peking would seek to be in a position to assert that an independent Kampuchea still exists and that China is assisting it against Vietnamese "hegemonism." Depending on the pace and scale of Vietnam's moves in Kampuchea, Peking could decide to intensify its saber-rattling along the Sino-Vietnamese border by moving main-force units to the region, stepping up air activity over the border, or provoking armed border incidents. Peking could also strengthen its military presence in northern Laos and explore the possibility of supporting anti-Vietnamese forces there in a bid to harass the Vietnamese on a new front.// []

//We believe China--with larger domestic and diplomatic concerns in mind--will try to avoid provoking outright conflict with Vietnam. Miscalculation and over-reaction are always possible, however, and--if the situation on China's southern flank deteriorates to anything resembling war between the two countries--Peking would find it extremely difficult to withdraw without suffering even greater damage to its credibility than it would over the "loss" of Kampuchea.// []

//The Soviets see in the Kampuchean conflict an opportunity to inflict a significant setback to Chinese interests in Southeast Asia at relatively low cost and risk to themselves. Moscow probably believes that, as the

25X1 [] situation evolves over the next few months, it will be required to do little more than continue providing political and material support to the Vietnamese.// [] 25X1

//Soviet leaders do not, however, rule out the possibility that Vietnam's actions could over time bring Sino-Vietnamese tensions to the point requiring some further demonstration of Soviet support to Vietnam. The Soviets might hold highly visible consultations with the Vietnamese under Article Six of the Treaty of Friendship and Cooperation concluded last month.// [] 25X1

//The Soviets could also step up conspicuously the quantity and quality of their military aid to Vietnam and might consider a naval port call or a show of force off the Vietnamese coast. Depending on events, the Soviets might ultimately engage in some saber-rattling on the Sino-Soviet border. Moscow, however, has welcomed the relative quiet there since the fighting in 1969 and would be loath to provoke a renewal of cross-border incidents.// [] 25X1

//We know little about the internal political dynamics in Kampuchea and the stability of the Pol Pot regime. Hanoi may be underestimating its political and military resiliency. On the other hand, our limited information suggests both considerable political flux over the past three years and Chinese disenchantment with the Pol Pot regime.// [] 25X1

//We cannot rule out the possibility of a new Chinese-backed "government of national union" coming to power in Phnom Penh, perhaps headed by Peking's old ally Prince Sihanouk, that would announce sweeping domestic reforms and a new willingness to negotiate the border dispute with Vietnam. Peking might believe, perhaps more out of desperation than logic, that such a government could rally enough domestic and international support to cause Hanoi to scale back its objectives in Kampuchea. Perhaps a more likely possibility is an internal political collapse in Kampuchea, a situation that probably would impel Vietnam to fill the political vacuum with its own Khmer government.// [] 25X1

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OPEC: Oil Prices to Rise

//The decision of the Organization of Petroleum Exporting Countries to raise crude oil prices by a total of 14.5 percent during 1979 is largely the work of the outgoing OPEC President, Kuwaiti Minister of Oil Ali Khalifa al-Sabah. He has lobbied intensely in past months for adoption of a pricing formula that would yield members of OPEC an overall increase in oil revenues of 10 percent in 1979.//

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//The price increase is substantially larger than Saudi officials had indicated would be acceptable prior to the meeting in Abu Dhabi. Saudi Minister of Petroleum Yamani said after the meeting that he was not happy with the price decision. Saudi Arabia's bargaining leverage within the cartel, however, was cut drastically by the reduction in Iranian oil production resulting from oil strikes.//

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//The Saudis have been producing at full capacity since late October to offset partially the shortfall in Iranian output and are in no position to battle other oil producers over market prices. Even if normal production levels in Iran are restored soon, demand for OPEC oil will be strong at least through the first part of 1979 despite the price increases.//

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